

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Background Papers for PEPAB

FROM:

Maurice C. Ernst
NIO/Econ

EXTENSION

NO.

DATE

7 September 1982

25X1

TO: (Officer designation, room number, and building)

DATE

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #7226-82
7 September 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: Background Papers for PEPAB

1. Attached is some material for you on the international financial issue that you may want to read before the PEPAB meeting. I particularly recommend [] article on the LDC cash flow crisis, which does a good job showing how the big recent increase in LDC short-term debt has greatly increased their vulnerability to a weakening of bankers' confidence. When confidence flags, the relevant consideration is not the traditional debt service ratio on long-term debt, but rather the total amount of debt coming due, plus interest.

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2. Walter Wriston's piece on international lending appears to me a bit too sanguine. It largely ignores the entire issue of systemic risk. Moreover, it does not consider the short-term debt problem, which, together with the big increase in interest rates, is the main source of LDC difficulties in the past two years.

3. [] drafting our own paper, but has little in shape to show you at this time. I have attached some hypothetical scenarios for financial panic that [] prepared for the interagency study chaired by Treasury that is also under way. These are admittedly extreme cases, but some, in particular debt repudiation by Argentina, or as part of a broader borrowers' revolt, are within the realm of possibility.

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Maurice C. Ernst

Attachments,
As stated

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